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 FOI, EO or PA exemption October 6, 1969
 (b)(1)(4)(5) Authority to:
 () CLASSIFY as _____, OADR
 () DOWNGRADE TS to () S or () C, OADR

TO : The Under Secretary
 THROUGH : S/S (b) RCB
 FROM : EA - Marshall Green
 SUBJECT : Next Steps in China Policy

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Where are we now?

1. The Administration has indicated a willingness to seek friendlier and "more normal relations" with Peking and to bring the Chinese out of their international isolation and to see them play a more constructive role in the Asian community when their policies change.
2. The President has expressed his general interest in modifying our trade policy toward Peking, privately through NSDM 17 and in his conversation with me on Air Force One late July, with Ambassador Stoessel September 9, and publicly through our relaxation of tourist purchases of Chinese goods on July 21.
3. We have publicly repeatedly expressed our willingness to renew our bilateral talks with the Chinese in Warsaw or elsewhere. We also expressed this position privately to the Chinese in March this year. We have further indicated that we will "soon" approach the Chinese again on this issue (the Secretary's Canberra speech). The President has authorized Ambassador Stoessel to seek an opportunity to convey to the Chinese charge in Warsaw the President's wish to discuss an improvement in relations.
4. We have slightly modified our travel restrictions applicable to China in July but have renewed these general restrictions for another six months, until March 15, 1970. The Secretary has, however, privately sent the President a memorandum endorsing a complete dropping of all travel restrictions at an appropriate time.

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SECRET/NODIS

- 2 -

5. The positions described in 1-4 above have been widely welcomed and approved in the press and by Congress. We are aware of no significant press criticism whatsoever and of only isolated reservations by members of Congress.

6. We have decided privately to withdraw, for budgetary reasons, the two US Navy destroyers which have regularly patrolled the Taiwan Strait. In the future, the functions of this patrol will be maintained by US ships in or transiting the Strait area to the extent Seventh Fleet forces are available. (The GRC has not yet been informed of this.)

7. We have apparently either directly or indirectly encouraged a number of other countries to convey to the Chinese our general interest in an improvement in relations and contacts. This has been done by the Pakistanis, the Cambodians and the French to our knowledge and possibly by others as well.

8. We have encouraged several members of Congress to attempt to visit Peking.

9. We have emphasized that we do not intend to change our ChiRep policy this year.

Where are the Chinese now?

1. The Chinese began the year with a series of extremely strong attacks against the Administration in general and the President specifically. As the year has progressed, these attacks have been substantially attenuated. Peking treated the President's Asian visit in a very low key and ignored the Secretary's trip. The Chinese have not commented publicly on either of the speeches on China policy made by the Under Secretary or the Secretary or on our trade and travel moves in July. (In the past they consistently have denounced such gestures.) In their first generalized commentary on US-China relations just prior to the October 1 Twentieth Anniversary celebrations, the Chinese reiterated in a very low key their position that the US has always been hostile to China, has in the past threatened China, occupies Taiwan, and is the arch imperialist enemy. The article also includes a rare reference to the continuation of the US trade embargo. The article omitted all references to the President or to current or future US China policy and contained no strong vituperative language.

2. Privately, the Chinese have told a number of foreigners that they are aware of the fact that US policy toward China is under review in Washington. They have privately noted the trade and travel moves as having been made in the context of

SECRET/NCDIS

SECRET/NOGDIS

- 3 -

this review but have said these are insufficient. They have continued to emphasize that some move relating to Taiwan is necessary but have conveyed mixed signals as to the scope of the US move required to evoke some response from Peking. Some reports have suggested Peking is seeking only some "symbolic" gesture such as a minor troop withdrawal from Taiwan or of the patrol ships in the Taiwan Strait. Other reports have focussed on Peking's large objectives of complete US "withdrawal" from Taiwan.

3. Privately (through Chou En-lai to the French Ambassador), Peking has also expressed an objective and rather sympathetic view of US policy toward the Sino-Soviet dispute, noting that the US has not attempted to take advantage of it or tried to worsen it, and that the US clearly does not see a Sino-Soviet war as in its interest. Chou has also indicated that the question of renewed Sino-US talks is "complicated", presumably by domestic problems. We have sensed that there has been an internal Chinese "debate" over policy toward the US over the last year, and particularly in recent months. While all this is still very far-removed from any clear indication of a major shift in Chinese policy toward the US, it suggests a slight "softening" of their position as compared with a year ago.

4. The Chinese continue to hold two Americans incommunicado who were picked up last February for allegedly sailing in Chinese waters en route from Hong Kong to Macao. They also hold six other Americans (including two military pilots from the Viet-Nam war).

What could we do next?

1. Trade Policy

We are currently preparing a recommendation for the President on an approach which will enable us to deal with the unblocking of the Bank Belge account by Treasury. This proposal is being prepared at the request of Deputy Under Secretary Samuels with the concurrence of the Under Secretary and, we believe, the Secretary as well. We have strongly urged that such a move be made as part of a more general policy action. We intend, therefore, to propose a modification of FAC to embrace a wide-range of regulations involving the extraterritorial aspects of current US trade policy toward Peking. This includes (a) unblocking of letter-of-credit accounts held by banks, (b) removing of FAC restrictions on American subsidiaries abroad, (c) removing of

SECRET/NODIS

REF ID: A66180
SECRET/NODIS

- 4 -

FAC restrictions on third-country trading activities of American firms involving possible presumptive Chinese goods, and (d) an end to current POL bunkering restrictions. We are also considering a proposal that all restrictions on the importation of Chinese antiques and objects d'art into the US be ended. We understand that Under Secretary Volker and Mr. Petty in Treasury are prepared to direct their staffs to study the legal and administrative requirements for implementing such a program.

2. A follow-up series of measures relating to trade policy include a general adoption of the remainder of the measures listed in NSDM 17, leading eventually to the elimination of export trade controls down to the level of that with the Soviet Union. We would also propose a general settlement of outstanding claims and debts to the Chinese at Warsaw or elsewhere.

3. Travel

We believe that all travel restrictions should be dropped as soon as this is practicable, as the Secretary recommended to the President. Current regulations enable us to do this at any time, without waiting until the end of the specific period for which the restrictions have been extended. We continue to feel, however, that this should be an across-the-board action justified on the legal considerations involved. Depending on the current state of negotiations in Viet-Nam, we could announce our intention to do so even before the end of 1969.

4. Warsaw Contacts

We recommend that we attempt to use the opportunity presented by the withdrawal of the two Taiwan Strait Patrol vessels to improve the atmosphere for US-ChiCom talks in Warsaw or elsewhere. We will be presenting a recommendation that, assuming no change is made in our present decision following the reaction of President Chiang, we arrange for the Chinese to be reliably informed of the US move. We would not indicate that the move involve anything more than a budgetary shift even in this contact but allow the Chinese to draw their own conclusions. We would then time a renewed approach to Peking through Warsaw to allow our proposal for new talks to be read in the context of whatever symbolic significance Peking may read into the Taiwan Strait ship move. If this may provide for "face" opportunities to renew contacts, this may provide the

SECRET/NODIS

SECRET/NOVIS

- 5 -

needed push. We would hope this chain of moves begin as soon as possible after an approximate date is set for discontinuance of the regular patrol.

5. At Warsaw, we could again suggest meetings in each others' embassies or a shift to another city: Oslo, Copenhagen, Helsinki, Bern, Algiers, etc.

6. Military Moves

We could consider whether some of the US forces which have been built-up on Taiwan in connection with the Viet-Nam war might be staged-down. Of particular relevance may be the C-135 tankers at CCK Airbase which, with their crews and service and maintenance personnel, increase the US military presence on Taiwan by 4-5,000. In any event, we should consider removing these forces as soon as they are not actually required for Viet-Nam purposes. We could also review the need for the stand-by fighter unit which has been on strip-alert at Tainan since May this year in connection with a possible ChiCom move against a US reconnaissance aircraft. Since the closest point of approach to the Chinese mainland by reconnaissance aircraft is now generally over 75 miles, and since the Chinese never threaten US reconnaissance aircraft in the Taiwan Strait area even when they fly closer than this, we may wish to consider withdrawing our strip alert aircraft to Clark Field. We understand CINCPAC has recommended that we do this in any event.

7. We have discussed with the White House the feasibility of a study of international organizations with a view to reassessing US policy toward universality of membership, to include Peking's membership, in non-UN affiliated technical and scientific organizations as well as the possibility of extending to include Peking in certain Viet-Nam specialized agencies. We understand there is some White House interest and this should be pursued further with IO and the White House staff.

cc: S/C - Pedersen
S/PC - Mr. Cargo
EA/ROC - Mr. Shoesmith

EA/ACA:PHKreisberg:lgr

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